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MN
NPTA MANAGEMENT NEWS
VOL. 32.....NO. 8

PUBLISHED BY
National Paper Trade Association, inc.

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NPTA Management News (ISSN 0720-2214) is published monthly by the National Paper Trade Association, inc., at a subscription rate of $15 per year. Second-class postage PAID at Great Neck NY, and additional mailing office. POSTMASTER: Send address changes to NPTA Management News, 111 Great Neck Road, Great Neck, NY 11021. 516-829-3070.
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Cover photo: Courtesy of New York Racing Association/Bob Coglianese, Jamaica, New York

Dual Paper Merchants 'Nose

By George W. Cain
Director of Research
National Paper Trade Association

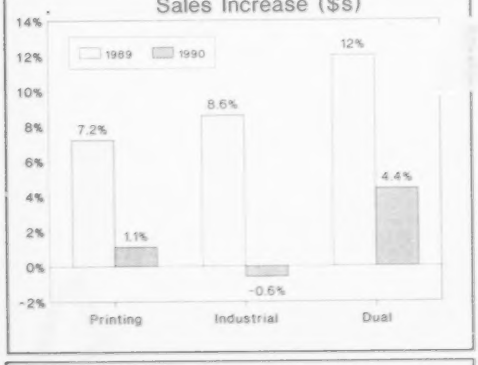
Dual merchants "nosed out the competition" on many measures in NPTA'S 1991 PAR (Performance Analysis Report), and printing merchants were the "also rans" for the first time in the past several years.

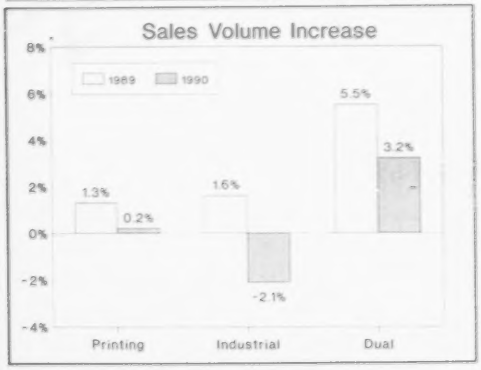
PAR is a confidential annual operating survey provided through contract with Management Foresight, Inc. (MFI) of Columbus, OH. NPTA's 56th annual PAR shows 1990 as the most difficult year for paper merchants in some time.

SALES CHANGES

Sales increases dropped substantially from 1989 to 1990. The first graph shows dollar volume changes; the second shows volume change by adjusting sales changes by changes in producer prices. Please note that sales have continued to drop during 1991; see the DataBank page at the back of the magazine for 1991 sales changes. (See Table 1.)

Table 1
Sales Increase ($s)

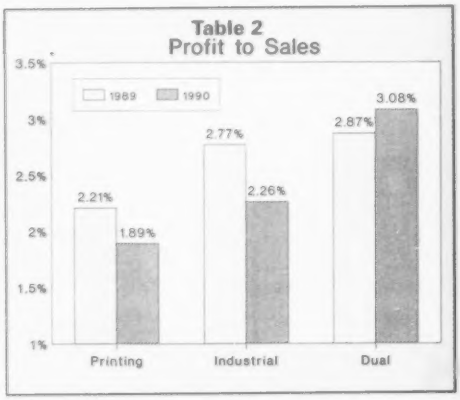




PROFIT TO SALES

Net profit before taxes to sales clearly shows the success of dual merchants in 1990, as they were the only group with an increase on this measure, and printing merchants were well below the other two groups for the second year in a row. (See Table 2.)

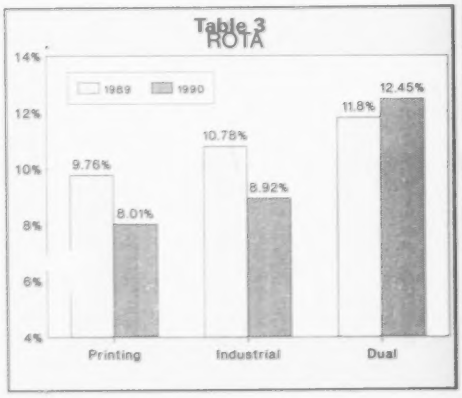
Table 2
Profit to Sales



PROFIT TO TOTAL ASSETS

ROTA (Return on Total Assets) is the most powerful of the profit model measures in PAR. Again, the dual merchants showed the only increase, and both printing and industrial merchants lost ground. Industrial merchants remained second, and printing merchants had their worst year on this measure since NPTA began using MFI for the annual operating survey. (See Table 3.)

Table 3
ROTA



RETURN ON NET WORTH

Return on Net Worth is the third of the profitability measures in the PAR profit model. Dual merchants, highest in 1990, were the only group to improve over 1989. Industrial merchants dropped from 1989's highest performance but remained ahead of printing merchants, who also decreased. (See Table 4.)

EXPENSES TO GROSS MARGIN

Again, dual merchants seemed best able to manage the crucial area of expense control. This may well be the primary source of their dominance on the three profit model measures in the PAR profit measures used by MFI. Their 1990 performance was the best they have achieved in 10 years. (See Table 5.)

INDUSTRY MEASURES

PAR filers range in size from companies under $1 million in size to divisions of larger companies over $500 million in size. In 1991, over 200 forms were sent to MFI, representing just under 50% of the total U. S. printing volume and just over 20% of the total U.S. industrial volume. MFI provides each participating company a detailed report comparing the company's performance to the performance of several groups in the industry. NPTA receives only the industry results, not reports on individual companies. The various tables, including Table 6, were based on industry com-

Out Competition' in Report

NPTA's confidential 1991 PAR (Performance Analysis Report) shows gains by dual merchants on the basis of many measures. The report also shows 1990 as the most difficult year for paper merchants in some time.

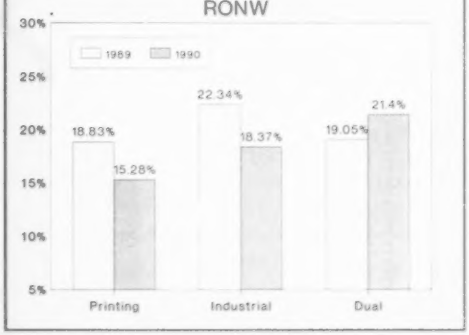
posite performance, which is a special sales-weighted average. This is the best way to analyze year-to-year changes in the industry.

COMPARISONS

The heart of PAR is comparisons. PARs have other performance comparisons designed to let each company compare its performance to several different industry groups. Companies see lower quartile, median, and upper quartile performance on these different industry groups. Medians are when half the companies scored higher and half lower; quartiles are when one fourth scored either lower or higher. The groups are:

Table 4

RONW



- Merchant types: printing, industrial, and dual.
- Sales volume groups: one of four sizes for printing firms, five for industrial, and four for dual.
- Sales path (percent of direct sales): one of four groups for printing merchants and three for dual. Industrial merchants who do not list any industrial specialization also have three possible sales path groups.
- Industrial specialization groups: food service, industrial packaging, retail/matched packaging, janitorial equipment and supplies, and a general "full-line" group for generalist industrial merchants.
- Regions: nine regions and a general multiple region group.

The sales volume and sales path groupings within the three merchant types are revised periodically to keep approximately the same number of firms in each sub-category. Merchant types, regions, and industrial specialization depend on the numbers of filers. Dual merchants have typically constituted about 15% of filers, with printing and industrial merchants dividing the remaining 85%. Regions 7 (Southwest) and 9 (Pacific Northwest) have traditionally been the smallest filing regions. Full-line merchants have been the largest industrial specialization group with industrial packaging the second largest.

PROFITABILITY GROUPS

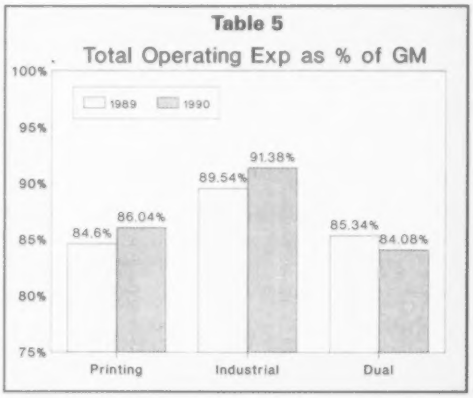
Overall industry profitability was the primary focus of the tables in this article. PAR participants can also compare their company's performance to three profitability groups in their merchant type (printing, industrial, and dual). ROTA (Return on Total Assets) is used to develop a low-profit group, a middle-profit group, and a high-profit group. MFI then analyzes each PAR measure to develop the performance on that measure of the low, middle, and high-profit groups. Participants, especially those who are not in the high-profit group, can perhaps see from this comparison why they are not profitable.

Characteristics of high-profit groups change somewhat from year to year, but the following paragraphs highlight some of the 1990 ROTA profitability group factors. The areas mentioned are not the core profit measures, but other operating ratios which seem to go along with profitability.

- Warehouse and indirect sales as a percent of total sales; this measure was related to profitability for printing merchants only.

Table 5

Total Operating Exp as % of GM



- Average warehouse and indirect order size; for printing merchants, the more profitable firms actually had a lower order size.
- % of increase in printing paper direct sales. For dual merchants, increases were related to profitability, but for printing merchants were related to lower profitability.
- Direct printing sales as a percent of all printing sales; for dual merchants a higher percent was related to higher profitability, while for printing merchants there was no relationship
- Direct gross margin; only for the dual merchants did profitability seem to go along with higher direct margins.
- Industrial product inventory levels; lower inventory levels were definitely related to profitability for industrial merchants, but not so definitely for dual merchants.
- Sales per cubic feet of warehouse area were higher for the high-profit groups of all three merchant sectors.
- Office and sales services expenses; the high-profit group for all three merchant types spent a lower percentage of their gross margin dollars in this area.
- Total data processing expense as a percent of gross margin; for printing mer-

Effective January 1, 1991, the Board of NPTA changed policies on distribution of information from NPTA's research programs. Only participants can now receive detailed results. The three programs are:

- *Monthly Sales Report*
- *QBCR Quarterly Report*
- *PAR Annual Report*

For the monthly sales report, only filing companies can receive the actual sales report with region-by-region data.

For the QBCR quarterly report there was no change. Only participants had been receiving detailed data.

For PAR, only participating companies can receive the types of detailed data formerly included in Paper Merchant Performance.

Firms can still file for PAR. Additional filers for the monthly sales report are happily accepted, and NPTA can add additional companies to the QBCR quarterly report.

If your company wishes to get more information about any of these services or to begin filing for them, call, write or FAX George Cain, NPTA's Research Director.

chants, spending more seemed to relate to profitability, but for industrial merchants it seemed to relate to less profitability.

- Warehouse and delivery expense as a % of warehouse and delivery gross margin; all three low-profit groups were high on this measure.

PAR-A TOOL FOR CHANGE

Profitability groups and the other PAR comparisons are most valuable when company management uses the results to make changes that will improve profitability. Sometimes changes can be as small as slight improvements in warehouse management, but sometimes changes needed could be as significant as making a major change in company management or marketing techniques.

CONFIDENTIALITY

No company data can be released to anyone except representatives of the company. This year brings even further restrictions in the use of the data from PAR. In the past a few sample comparisons have been published in Paper Merchant Performance, a 60-page summary of results from PAR. Paper Merchant Performance has been replaced with a more limited recap of current year data, and this will be mailed to PAR participants only.

ARTHUR ANDERSEN AND PAR

1991 was a year of major changes for NPTA's PAR. The most dramatic was the purchase of Management Foresight, Inc., by Arthur Andersen. Steve Samek, who has worked with both NPTA and NAW (National Association of Wholesalers) was the lead partner in negotiating the purchase. Patrick W. Dolan is the other partner involved with the management of MFI, and Rick Prohammer is the third new MFI staff person. Rick is the actual on-site manager. Interestingly, all three happen to have been successively the local audit manager for at least one NPTA member paper merchant. The transition went very successfully. Virtually all operating staff of MFI remained, and the joint NPTA-MFI plans for 1991 were carried out well.

HARD DEADLINES

Deadlines for 1991 were moved up and a decision made to adhere firmly to these deadlines. As a result, both early "Flash" reports and the regular reports were out substantially earlier. This adherence to deadlines brought a different result than anticipated. NPTA's staff and Management Information Committee expected to see a drop in filing by smaller members, but this really did not occur. However, several larger firms with combined sales of over $1.5 billion turned out to be the companies which missed the deadline and had to file late to get their PARs.

PAR EARLY REPORT

MFI's 1991 "Flash Report," received by participants in early April, was an improved version of NPTA's early report of past years. The Flash Report included roughly 65% of the final PAR volume and provided more than the preliminary industry numbers included in the 1990 early report. The Flash Report for each early filer included that company's performance ratios. In addition, Steve Samek included an interpretive page about the results of the early report.

SIMPLER FILING

Filing was easier in 1991. The Ease disk-based questionnaire was improved, the regular questionnaire was made smaller and simpler, and the short questionnaire was reduced to a two-page form. In addition, NPTA provided several participants with a "Lotus" file to assist them in making expense allocations. MN

1990 Industry Group Performance

	Printing	Industrial	Dual
Sales Change over Previous %	0.09	-0.61	4.43
NPBT as a % of Net Sales	1.89	2.26	3.08
Net Sales to Total Assets	4.22	3.92	4.06
NPBT as a % of Total Assets	8.01	8.82	12.48
Total Assets to Net Worth %	1.74	2.05	1.72
NPBT as a % Net Worth	15.28	18.37	21.40
Return on Capital Employed %	13.44	15.51	20.02
Whse & Ind Sales % of Total	49.25	81.49	62.10
Warehouse Gross Margin	21.42	24.16	21.79
WH & Ind Gross Margin	21.23	23.78	21.42
Direct Gross Margin	5.85	14.25	8.27
Net Sales per Employee $000	609.18	276.49	469.55
GM per Employee $000	79.03	60.81	77.62
Total Operating Exp as % GM	86.04	91.38	84.08
Payroll as a % Gross Margin	47.52	55.04	47.84
Sale Service & Selling Exp %GM	38.32	39.29	35.74
Inventory Turns - WH	5.20	7.54	5.73
GM Return on Inv. - WH only %	140.03	235.59	157.60
GM Return on Inv. - WH & Ind %	155.80	238.81	168.97

Distributors Proactive In Environmental Area, Reports New Study

NPTA commissioned a study of paper and plastics distributor attitudes regarding the environment and its impact on their particular marketplace. The study, conducted for NPTA by Healy & Associates, was completed in May. The results give readers a better understanding of where the industry is heading on the environmental front.

No issue has attracted more attention than the environment–both from the merchant's point of view as well as his supplier's perspective. The bandwagon was built quickly, and in the past year all have climbed aboard.

But, at what speed is the wagon rolling through the industry?

NPTA wanted to find out and decided to poll its members this past spring. A survey was crafted by NPTA working with Healy & Associates. It was designed to help company people understand the length, breadth, and depth of the environmental movement within this industry.

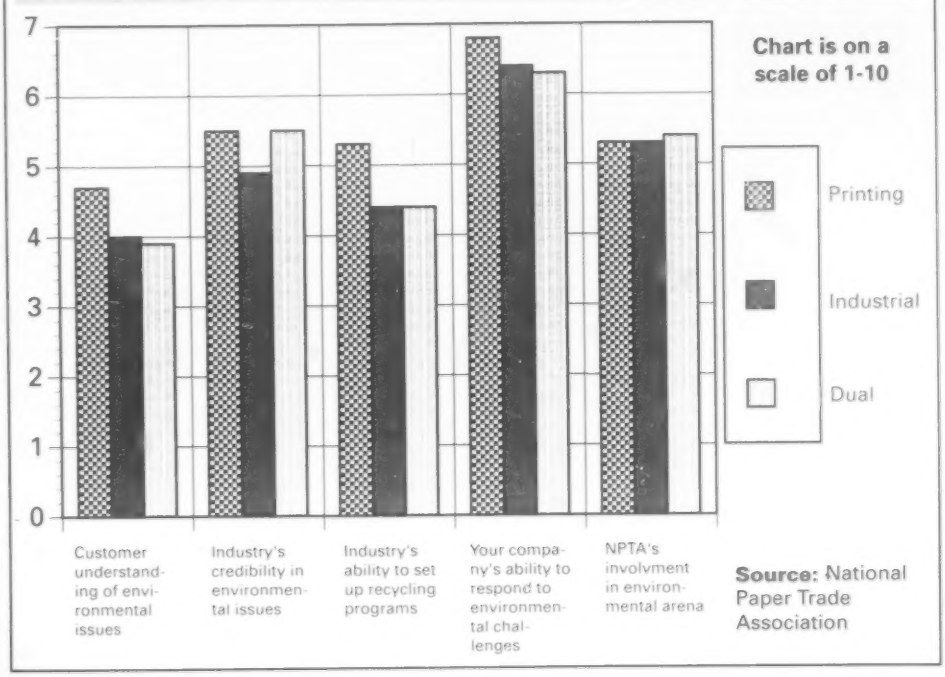
A sample of 115 companies provided input, and their thoughts statistically represent the entire industry, reports Healy. Seventeen detailed questions covered the environmental issues facing distributors today. In addition, members were asked to look two or three years ahead.

NPTA members were asked to report their current activities in the environmental area. Three out of four said that they do have programs for their employees and four out of five reported that they offer some type of program for their customers. More than one out of two said that they have held workshops for customers. Interestingly, nearly two out of three have started recycling programs for their own offices.

This is very significant. It shows how proactive distributors have become in the marketplace.

Members were then asked to rate specific aspects of the environmental issue on a scale of 1 -10 (1 being poor, 5 fair, 10 excellent). They reported that customers have a less-than-fair understanding of the environmental issue (4.1), and that the industry credibility on environmental issues is only fair (5.2),

Distributors' Ratings of Issue Aspects by Type of Distributor



Source: National Paper Trade Association

but that their companies' ability to respond to the environmental challenge was significantly better (6.5). (See the breakdown by type of distirubtor in the graph.)

When asked about formal programs that support their company people and customers, distributors showed that they are doing the best job educating their sales and service people about environmental issues and the impact these issues are having on the products they offer (6.7). They also felt that they weren't doing as good a job with customers (5.9), and were least active in approaching governmental agencies with their opinions on environmental issues (4.7). This, of course, is extremely difficult for all companies.

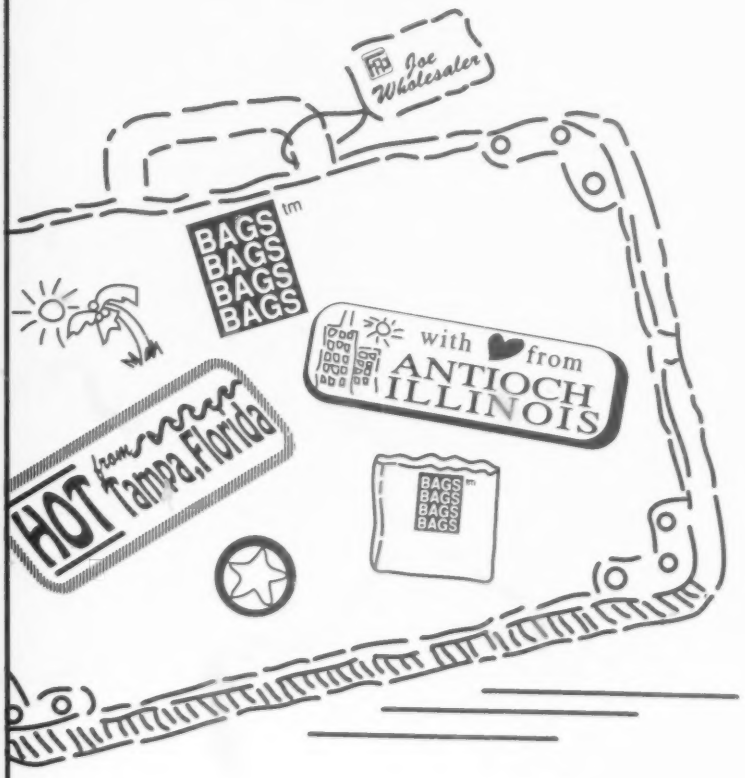
Supplier Involvement

NPTA members were asked to rate the quality of support that suppliers provided regarding the impact of their products on the environment. Distributors gave suppliers the highest marks for their brochures and technical information (6.2) and their demonstration materials, samples, etc. (5.6).

Unfortunately, suppliers received the lowest scores on their offering of technical service personnel with expertise on environmental issues (3.9) and providing workshops and training for the distributors' customers (3.4).

When asked about specific supplier programs of note in the environmental area, the top six suppliers mentioned were:

- ▲ Scott
- ▲ Simpson
- ▲ Dart
- ▲ Fort Howard
- ▲ Cross Pointe
- ▲ James River



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Environmental Resources for all Distributors

NPTA has been proactive in the environmental area for the past two years. The Solid Waste Action network (SWAN) keeps members informed of new developments and legislation, plus NPTA has created a board subcommittee to deal with policy direction on environmental issues.

The expanded coverage in MN has proved very helpful to members. The "Environmental Action" monthly column began over a year ago. In addition, MN created its special issue (April 1991) on "Paper, Plastics & the Environment" that also provided an additional 6,000 copies to readers to use with their customers. This will be continued in future years.

Plans are afoot to create an environmental newsletter for members that will begin publication in 1992. It is planned at this point to be in a form that members can use camera-ready and reprint with their company name on it to give out to customers.

As part of NPTA's new "Best of the Best" awards, an environmental award will be given for outstanding work in the field.

The top features of the best supplier programs that were identified by NPTA members included:

- ▲ Product design
- ▲ Literature/articles
- ▲ Training materials
- ▲ Recycled grades
- ▲ Promotional materials and brochures

Challenges and Opportunities

Every future scenario includes environmental concerns. All agree that these will be with the industry for many years to come. The most significant challenges facing the merchant community in the future, according to NPTA members, will be:

- ▲ Public education
- ▲ Recycling programs
- ▲ Environmentally responsible product availability
- ▲ Government regulations
- ▲ Landfill and disposal issues

The opportunities presented in the marketplace are also significant. NPTA members felt that they are uncovering environmentally friendly markets, recycled products will continue to thrive, that they can take the lead in educating customers, and they can gain some PR value from these activities.

NPTA's Role

Members of NPTA were asked about their Association's current activities and what it should be doing for members in the environmental area. Members felt NPTA's role should be as an industry-wide clearinghouse of information on environmental material and legislation (7.9), and that of a leader in shaping legislation and government regulations (7.7).

What they also felt NPTA should do is to sponsor task forces on environmental affairs, sponsor programs (7.1), and develop and distribute materials (7.3). What members were less interested in was NPTA offering training programs for distributor sales and service personnel (6.3). (It was shown in the preceding material that NPTA members felt that they were doing a good job in this area themselves.)

Member Involvement

NPTA has its Solid Waste Action Network (SWAN). All companies interested in participating in SWAN who are not now active, should contact NPTA president John J. Buckley at 111 Great Neck Road, Great Neck, NY 11021. Member involvement helps support the entire industry. MN

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- ◆ Setting compensation levels
- ◆ Incentive compensation leverage
- ◆ Determining the right team
- ◆ Identifying performance measures
- ◆ Incentive plan alternatives

Session 3: Incentive Case Studies
- ◆ Linking sales representatives and the order desk
- ◆ Coordinating field sales and national accounts
- ◆ Linking sales representatives and customer service personnel
- ◆ Developing a corporate sales team: sales representative, order desk, customer service, specialist representative

Session 4: Implementing New Incentive Programs
- ◆ Requirements for a successful change
- ◆ Process for introducing a new plan
- ◆ Building consensus for change
- ◆ Training and communication related to plan changes
- ◆ Assessing the results of a new program